

April 8, 2020

# CalPERS & COVID-19: **Preparedness & Resiliency for Our Employer Partners**



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*Chief Executive Officer*



**Dan Bienvenue**  
*Deputy Chief Investment  
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**Scott Terando**  
*Chief Actuary*



**Michael Cohen**  
*Chief Financial Officer*



**Renee Ostrander**  
*Chief, Employer Account  
Management*



**Brad Pacheco**  
*Deputy Executive  
Officer, Communications  
& Stakeholder Relations*

Communication

Paying  
Benefits

CaIPERS'  
COVID-19  
Priorities

Member and  
Employee  
Safety

Serving  
Members  
and  
Employers

Managing  
Investments

# Three Key Priorities



Investment  
risk



Employer  
affordability



Climate risk

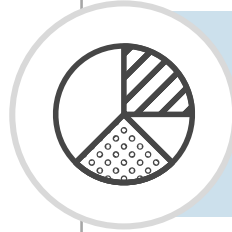
# Better Prepared than 2008

## Positioned to mitigate risk and capitalize on investment opportunities

### Investments



Healthy liquidity position

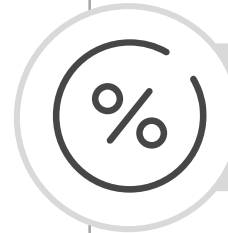


Diversified portfolio and asset allocation



Total fund perspective

### Employers



7% discount rate



Shortened amortization to 20 years



Additional payments by the State and many public agencies

# Financial Picture – Current Estimates | March 31, 2020

**\$355.62 billion**  
current assets

**– 4%**  
current investment  
returns

## Strategic asset allocation


Global Equity - Market Cap Weighted	35%
Global Equity - Factor Weighted	15%
Private Equity	8%
Fixed Income - Long Treasuries	10%
Fixed Income - Long Spread	15%
Fixed Income - High Yield	3%
Real Asset	13%
Liquidity	1%

# Prepared for the Market Downturn

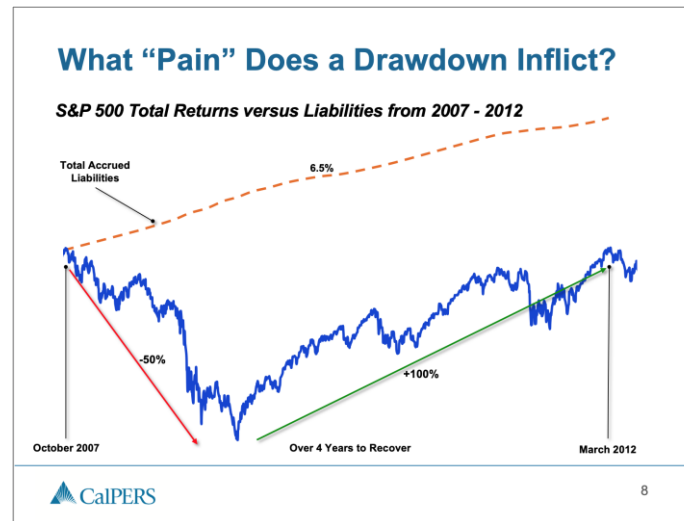
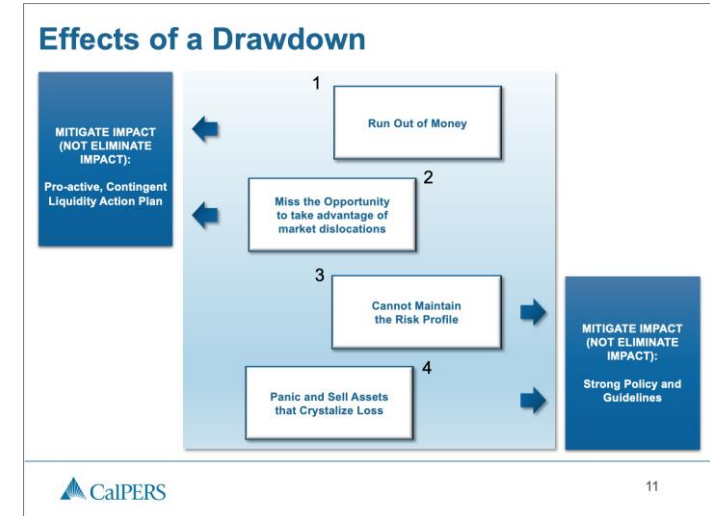
## June 2019 Investment Committee

### Mitigating Drawdowns

June 17, 2019  
Yu (Ben) Meng, Ph.D.  
Chief Investment Officer, CalPERS




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### Developing an Action Plan

What do we do during a drawdown?	What do we NOT do during a drawdown?
<ol style="list-style-type: none"> <li>1. Meet all of our required cash flow obligations</li> <li>2. Assess and understand impacts of drawdown across the portfolio</li> <li>3. Maintain our desired risk exposures</li> <li>4. Opportunistically seek to deploy capital / dry powder</li> </ol>	<ol style="list-style-type: none"> <li>1. Succumb to common investment behavioral biases</li> <li>2. Allow deviation from pre-determined plan without a strong justification</li> </ol>



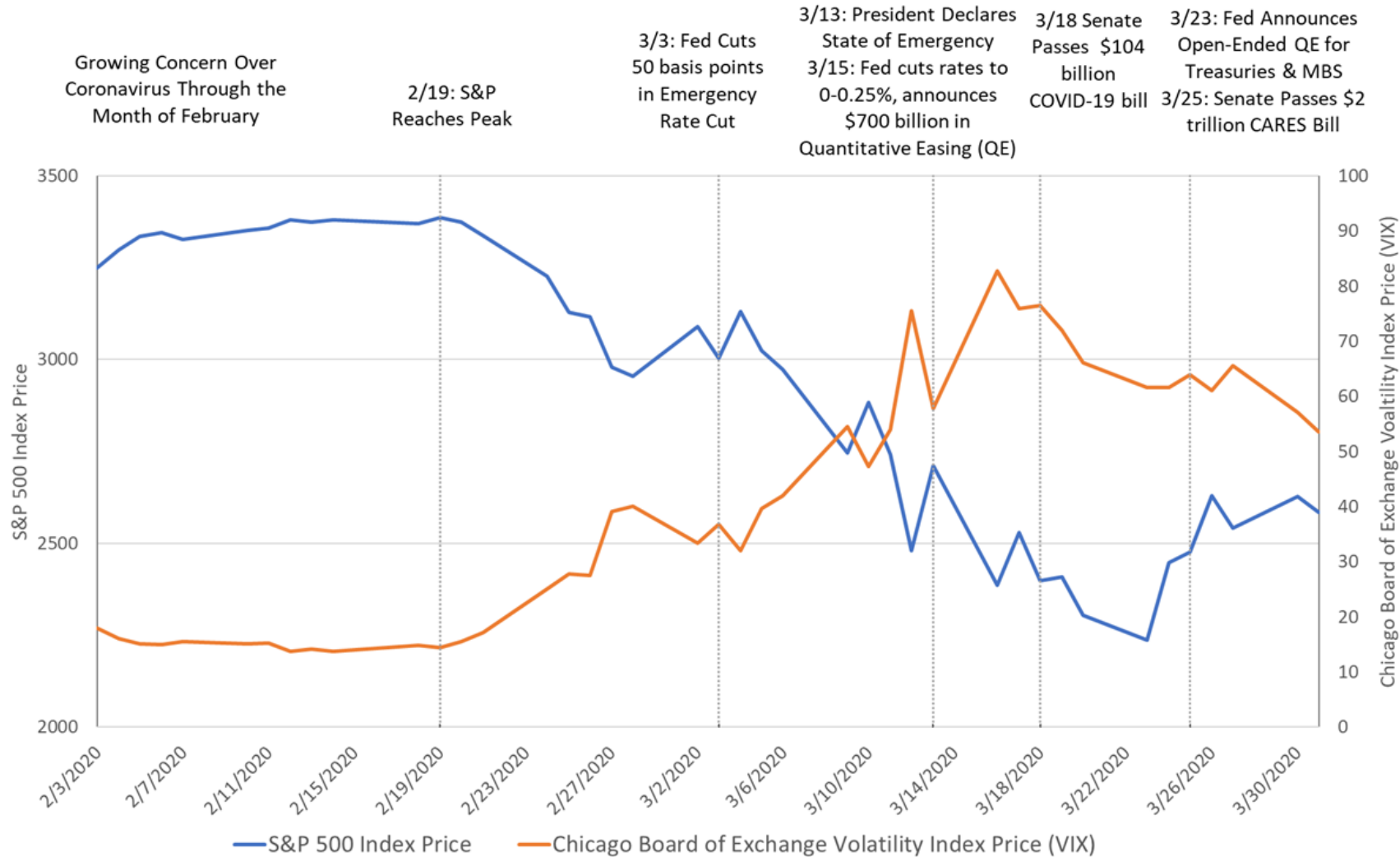
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# Reaction to COVID-19 in the Public Markets

		Percentage Change in Benchmark through March 31, 2020					
Market Segment		1 Day	5 Day	1 Month	Calendar YTD	Fiscal YTD	Since S&P 500 Peak on 2/19
Highest risk	Global Equities - Market Cap Weighted	-0.55%	3.58%	-14.49%	-22.44%	-15.45%	-24.35%
	Global Equities - Factor Weighted	-1.24%	4.76%	-11.93%	-18.15%	-13.05%	-20.54%
	High Yield Corporate Bonds	0.66%	7.01%	-10.37%	-12.42%	-8.88%	-13.13%
	Long Spread Bonds	0.05%	2.52%	-4.67%	-1.61%	1.87%	-3.92%
Lowest risk	Long US Treasury Bonds	-0.97%	1.35%	5.22%	17.22%	20.02%	11.08%
	Liquidity / Cash equivalents	0.00%	0.00%	0.12%	0.35%	1.26%	0.16%

# Unprecedented Monetary & Fiscal Response to COVID-19



# Have a Plan & Follow the Plan

Following our agreed plan from June 2019 on **what to do** during a drawdown



Meet all of our required cash flow obligations



Assess and understand impacts of drawdown across the portfolio



Maintain our desired risk exposures



Opportunistically seek to deploy capital / dry powder

Ensuring we **do NOT deviate** from our June 2019 plan

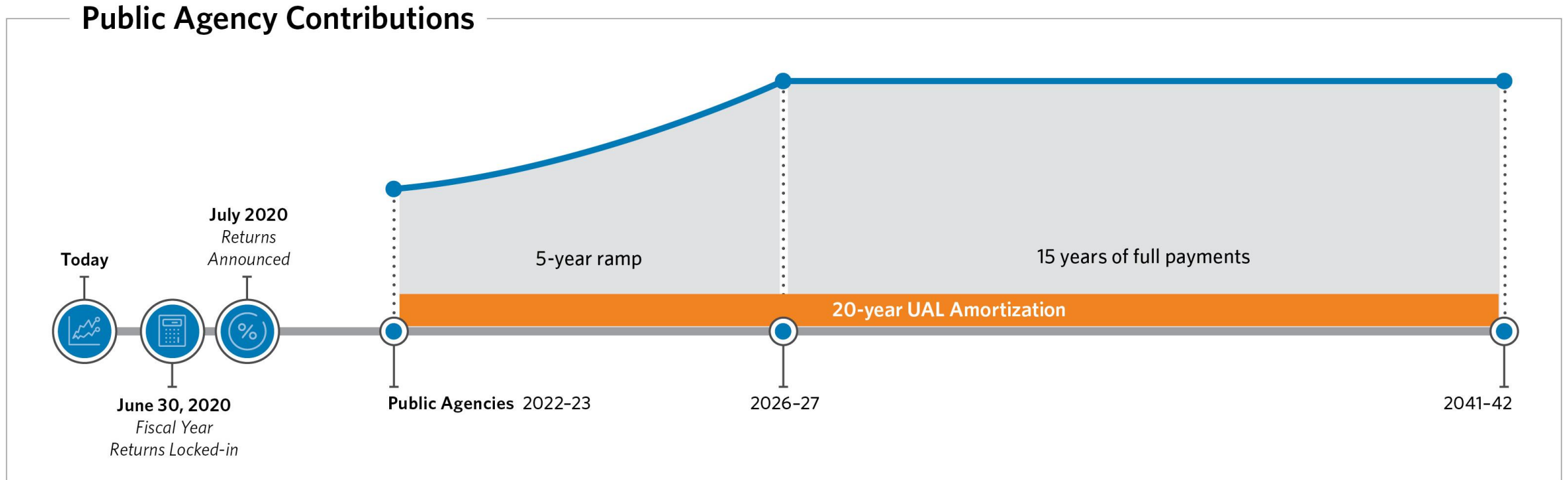


Succumb to common investment behavioral biases



Allow deviation from pre-determined plan without a strong justification

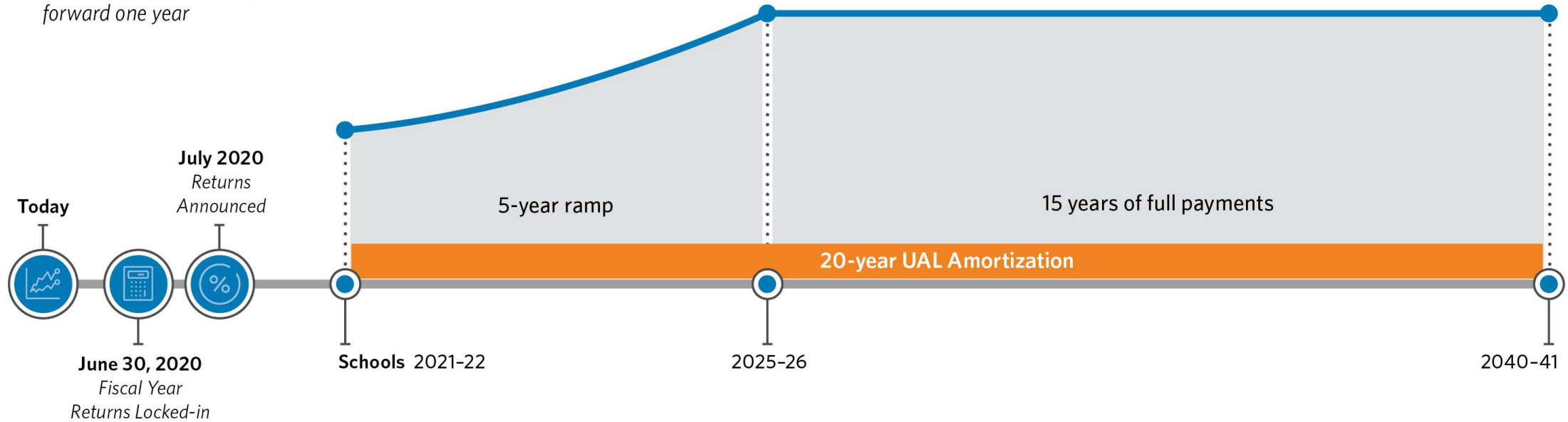
# How Investment Losses are Amortized – Public Agencies



# How Investment Losses are Amortized – Schools

## School Contributions

School payments are shifted forward one year



# Sample Employer Impacts with 2% Return

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## Simplified Example — Investment (Gain)/Loss Amortization

Market Value of Assets at 6/30/2019	\$ 10,000,000
Investment Earnings	<b>2.00%</b>
Discount Rate	7.00%
Investment (Gain)/Loss %	<b>5.00%</b>
Investment (Gain)/Loss \$	\$ 500,000

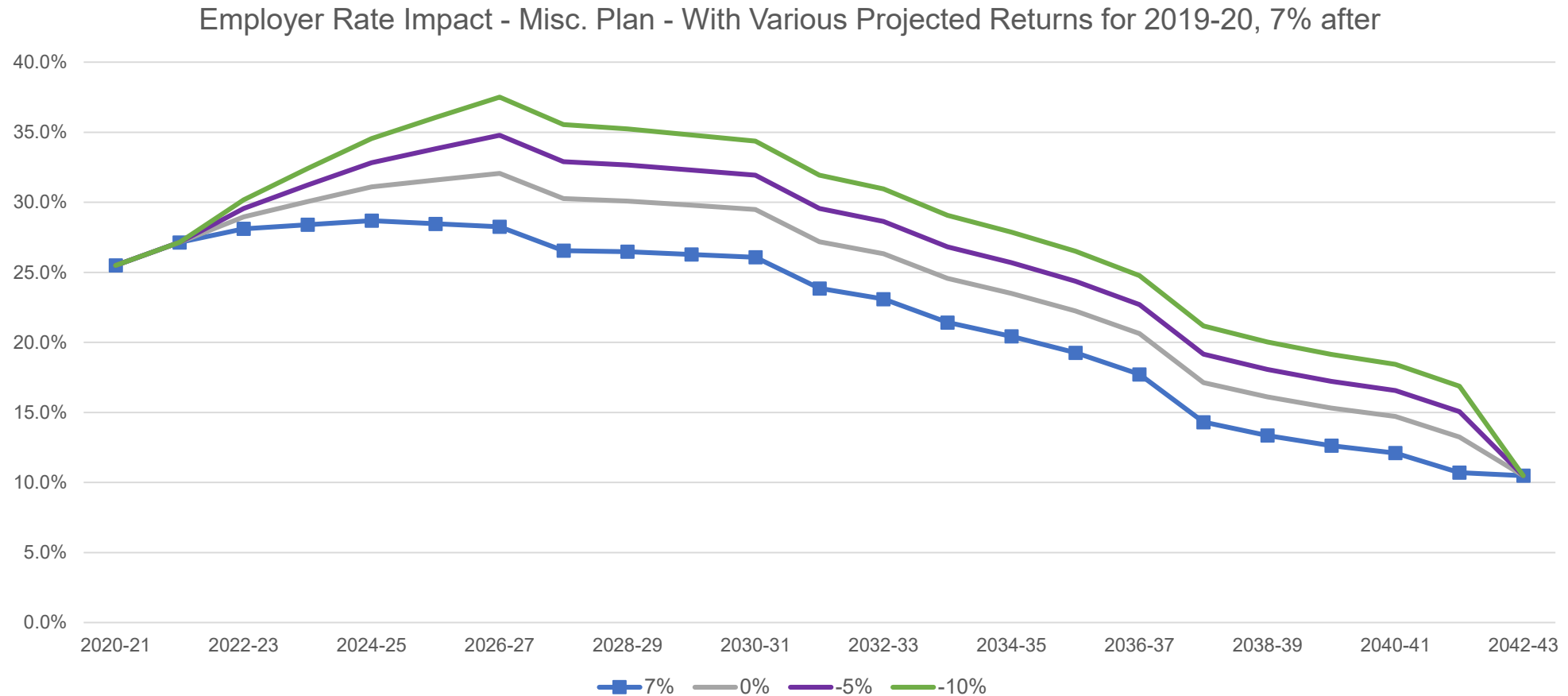
## Amortization Payments for Investment (Gain)/Loss

FY 2022-23	\$ 12,516
FY 2023-24	\$ 25,032
FY 2024-25	\$ 37,548
FY 2025-26	\$ 50,064
FY 2026-27 to FY 2041-42	\$ 62,580

# Volatility of Returns with Potential Funded Status of Plans

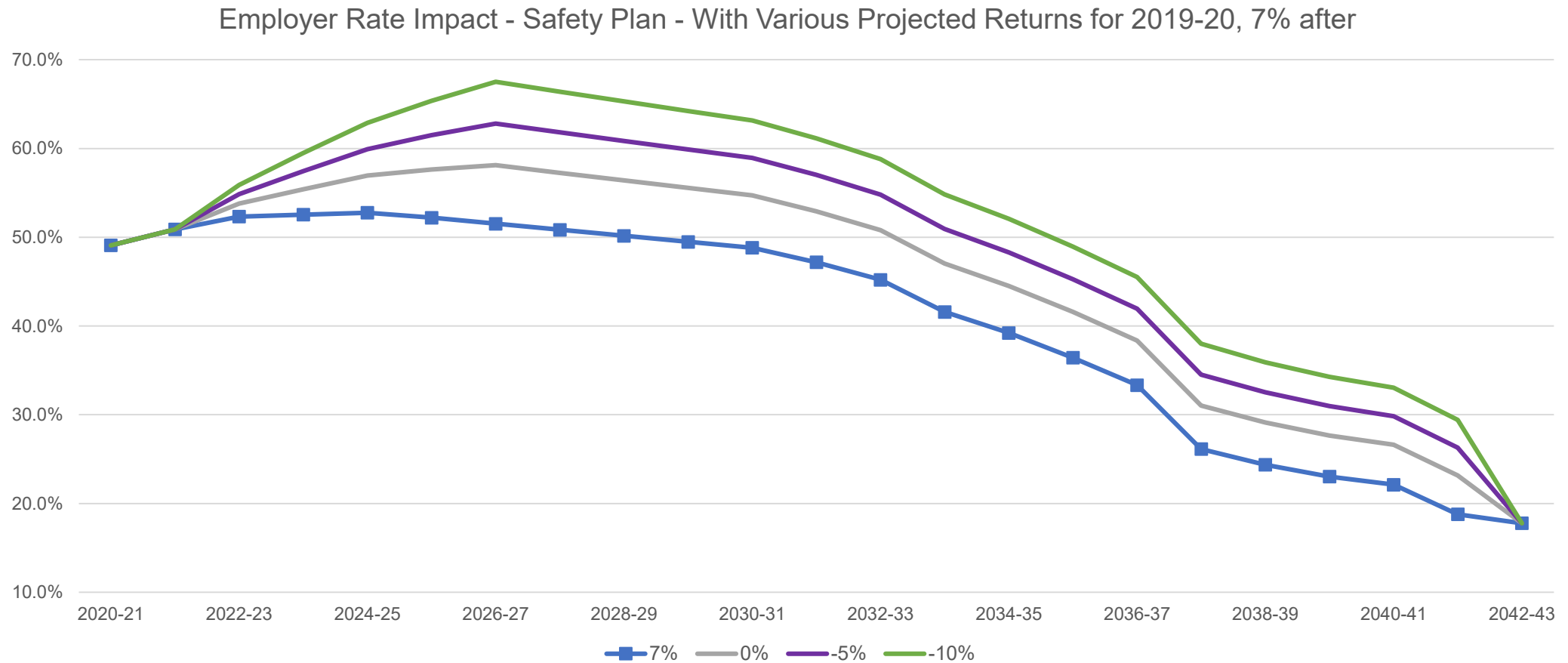
	Potential Funded Status with Various Investment Returns			
Plan	7%	0%	-5%	-10%
Miscellaneous	<b>73.7%</b>	68.9%	65.6%	62.0%
Safety	<b>70.2%</b>	65.6%	62.0%	59.0%
Schools	<b>70.1%</b>	65.6%	62.3%	59.0%
PERF	<b>72.1%</b>	67.3%	64.0%	60.6%

# Potential Employer Contributions – Sample Misc. Plan

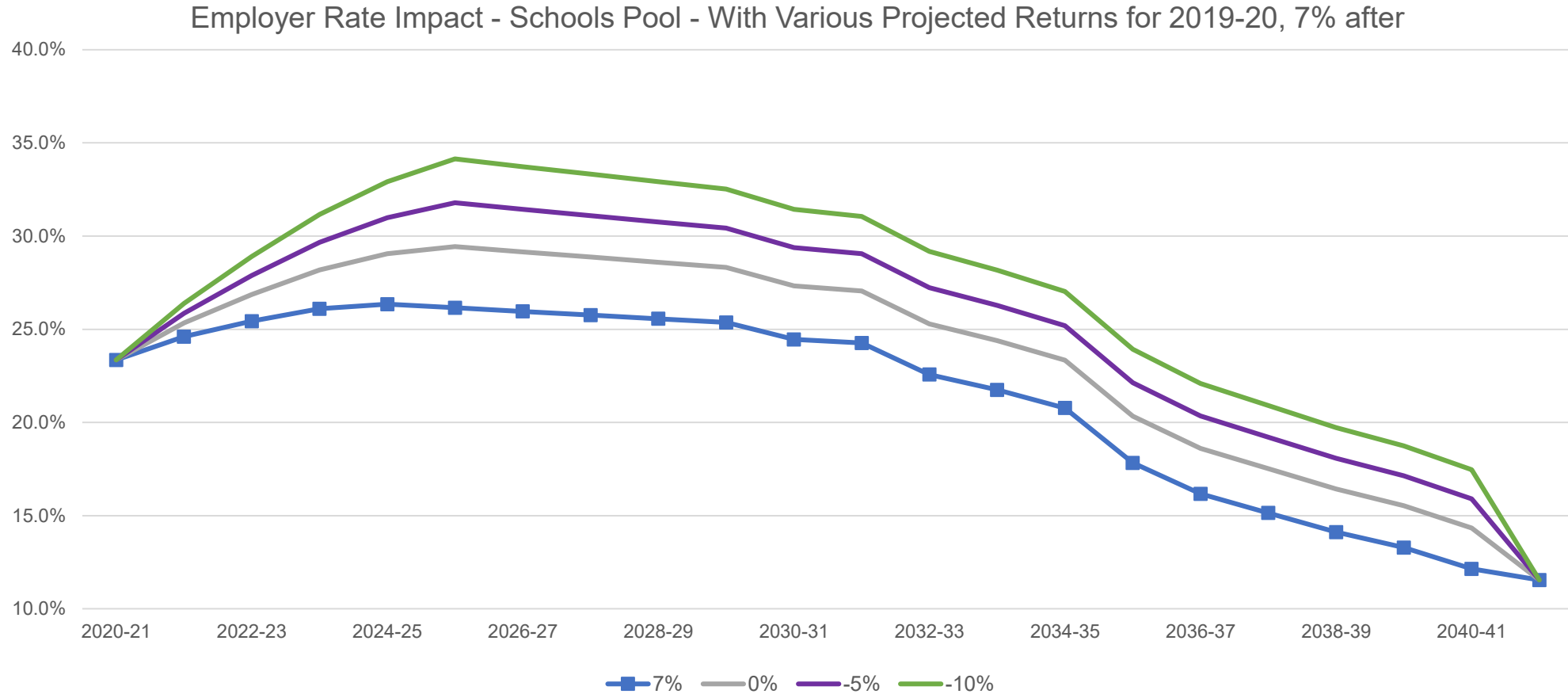




# Potential Employer Contributions – Sample Safety Plan



# Potential Employer Contributions – Schools



# Funded Status of Individual Plans

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**Estimated Number of Plans  
with Funded Ratio <60%**

Investment Returns	Number of plans
7%	16
0%	68
-5%	171
-10%	381

# Shifting Landscape of Employer Finances

Some plans  
better  
funded than  
others

Revenues  
sharply  
reduced

Core work  
impacted

Future  
revenues  
jeopardized

Increased  
public  
health costs

Reduced  
staffing

# Options Exist, But Are Limited

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## Operating principles



- Actuarial soundness for active and retired members
- Pensions must be funded and benefits paid

## Pension laws govern decision-making



- COLAs
- Benefit design changes

## Finding ways to be flexible

- Case-by-case reviews for employers with financial necessity
- Contact CalPERS to explore options

# What You Need to Know – Personnel & Reporting

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**Retired  
Annuitants**

*Exec Order N-25-20*



**Membership**



**Reporting of  
Employee Data**



**Fee  
Waivers**

# CalPERS Contact Information & Resources

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## Financial Assistance Inquiries

**Pension Contract Management Team:**  
pensioncontracts@calpers.ca.gov

**Prefunding Trusts:**  
CEPPT4U@calpers.ca.gov

## Operational Questions

**888 Employer Contact Center:**  
888-CalPERS

**Employer Response Team:**  
ERT@calpers.ca.gov  
800-253-4594

**Inquiries and Connections:**  
CalPERS\_Stakeholder\_Relations@calpers.ca.gov

## References and Resources

**Employer FAQs:**  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

**PA/School Reference Guide**

**Virtual Training Available**

Q & A





# Our Commitment to You



Ongoing  
communication



Listening to  
employers



Partnerships



Here for you